



# Michigan Association of Health Plans

## MAHP WRITTEN TESTIMONY IN SUPPORT OF S.B. 347/348

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### Background

Currently, a 6 percent use tax is applied to services provided by health plans that hold a Medicaid managed care contract. The funds raised by the tax (\$400 Million) are then matched by federal dollars and which helps to underwrite the overall Medicaid program. We believe it is helpful to understand the history of the HMO Use Tax and why this is now an issue to be addressed.

Because the state was unable to provide actuarially sound funding for the Medicaid Managed care program, the MAHP supported in 2002 a Quality Assurance Assessment Program, (QAAP) 6% tax on Medicaid Premiums which was then permissible under federal law. In 2006, the Federal Deficit Reduction Act, DRA, repeal the provision for such a tax for Medicaid HMOs but provided a "grandfather clause" for Michigan and 7 other states to develop an alternative tax within the subsequent two years—or by the end of calendar year 2008.

In December of 2008, the Michigan legislature adopted an amendment to Michigan's Sale and Use tax to provide the ability to tax (at the 6% rate) the medical services covered by premiums of Health Plans with Medicaid contracts. It was the belief that this arrangement would meet the various legal requirements of provider taxes acceptable to the federal government that could be used to provide the same amount of matching funds. However, since the enactment of this amendment, CMS has raised numerous informal reactions to the "use tax" and has more recently indicated their intent to develop administrative rules to eliminate its inclusion as matchable for federal purposes during FY 12.

### **SB 348 – Alternative**

The Administration determined that it was important to address this issue now rather than at the point the rules were released and proposed an alternative (now S.B. 348) with the intent to yield the same amount as the HMO use Tax of \$400 million. Without enactment of this alternative to the HMO use tax, the need for reductions of at least \$1.2 billion in the Medicaid program to arrive at the \$400 million in savings will be necessary.

### **MAHP Position**

The Michigan Association of Health Plans supports the enactment of the current version of SB 347/348 as an acceptable substitute for the current HMO use tax. In establishing this position, the MAHP Board of Directors embraced the principle that any replacement tax should be broad based, low rate and applied equitably among all payers (insured and self-insured) in order to achieve the objective of replacing the \$400 million raised by the current HMO Use Tax.

We recognize that SB 348 affects many more payers than the current HMO use tax—commercial carriers, including those who belong to MAHP, employers who self insure, and others. This broader base permits a much lower tax rate and is the most equitable policy. Our commercial members and other payers know that failure to support this substitute tax will result in unprecedented double digit provider rate reductions in the Medicaid program. Reductions of this magnitude would force more providers to leave the Medicaid program, increase emergency room use and thereby uncompensated care—all of which have the impact of increasing premiums for commercial and self-insured payers due to cost shifting.

Further, provider reductions in the magnitude of \$1.2 billion will likely force physicians and clinics to not just leave the Medicaid program, but close their offices—which leave all citizens at higher risk. This includes for access to care in addition to Medicaid beneficiaries who are mostly pregnant women, children, disabled and the elderly. Our hospital emergency departments simply cannot carry the burden of providing care if other providers leave the Medicaid program.

### **Conclusion**

The current version, while not perfect, provides greater clarity and has improved the overall intent of this legislation and has addressed many of the concerns of those opposed to the legislation. MAHP encouraged support of this legislation.



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**Working Together To Make Affordable, Quality Healthcare a Reality for All in Michigan**

August 9, 2011

Dear Chairman Moss and Members;

On behalf of Michigan Consumers for Healthcare Advancement (MCHA), a statewide coalition dedicated to making healthcare work for the Michigan consumer, we are encouraging your adoption of Senate Bill 348. As you are aware, SB 348 establishes a 1% health care claims tax that will generate an estimated \$400 million annually for the purpose of qualifying for federal Medicaid matching dollars.

The state budget recently adopted by the Michigan Legislature and signed into law by Governor Snyder assumes \$800 million in matching federal Medicaid dollars which will be lost without an identified state match. This means that the fiscal year 2012 state budget remains unfinished until the House completes its work on the adoption of a health claims tax.

The state of Michigan simply cannot afford to lose \$1.2 million in essential healthcare services to Michigan's low income families, seniors and persons with disabilities. Passage of the claims tax is therefore critical in sustaining essential Medicaid services and in generating the high level of economic activity that comes with an \$800 million dollar federal investment in our state's healthcare providers and their services.

While passage of the SB 348 is essential, our Coalition opposes moving the sunset on the legislation from Jan. 1, 2016, as proposed in the Senate Bill, to Jan. 1, 2014 as proposed in the House Substitute to SB 348. We view any call for an earlier sunset as unnecessary and unproductive in meeting the long-term healthcare needs of this state.

Thank you for your consideration in this important matter and please let me know if I can be of any further assistance.

Sincerely,

Don Hazaert  
Director, MCHA



**Michigan Association of School Nurses  
RESOLUTION**

**Urging Michigan Legislature to Preserve Medicaid for Vulnerable Children  
Pass Senate Bill 348, the Paid Health Claims Assessment Bill**

**Whereas**, the Michigan Association of School Nurses is a statewide organization dedicated to the health, safe care and optimal learning of all children and youth. The Michigan Association of School Nurses believes that every child is entitled to a level of health and wellness that will permit the maximum utilization of educational opportunities;

**Whereas**, an increasing number of school-age children do not have health insurance except through the Medicaid program;

**Whereas**, in our state from 15% to 18% of children and adolescents have some sort of chronic health condition, and approximately 98,000 Michigan children receive medications in school every day;

**Whereas**, any reduction in Medicaid threatens schools' ability to comply with requirements such as the Individuals with Disabilities Education Act (IDEA);

**Whereas**, currently a 6 percent use tax is applied to the premium paid to health plans that hold a Medicaid managed care contract. This assessment generates approximately \$400 million a year in state dollars and over \$800 million in federal dollars;

**Whereas**, the federal government has indicated that it will soon enact federal rules disallowing the "HMO use tax" as not sufficiently fair and broad based. Without enacting an alternative funding source, Michigan will have to reduce the Medicaid program by over \$1.2 billion dollars, equal to a 20% cut to Medicaid provider rates;

**Whereas**, Michigan's Medicaid provider rates are already perilously low, resulting in limited access to providers and services for an entire community.

**Whereas**, Senate Bill 348 would establish 1% paid claims assessment in law, complete the work on the 2012 Budget and protect future federal funding for the Michigan Medicaid program;

**Now, therefore be it**

**RESOLVED** the Michigan Association of School Nurses urges the Michigan House of Representatives to support the health care claims assessment in Senate Bill 348 in order to sustain current Medicaid services and maintain access to health care services for the most vulnerable children in our state; and further be it

**RESOLVED**, that a copy of this resolution be conveyed to members of the Michigan House of Representatives.

**Resolution Adopted July 15, 2011**

For more information, please contact:  
Pat McCain, MASN President at  
[michiganschoolnurses@gmail.com](mailto:michiganschoolnurses@gmail.com)

OR Jean Doss, Consultant at  
[jmdoss@comcast.net](mailto:jmdoss@comcast.net), (517) 999-3165



August 10, 2011

To: Members of the House Appropriations Committee

From: Jack Kresnak, President & CEO, Michigan's Children

Re: Senate Bill 348

Dear Representative,

On behalf of nearly one million Michigan children who rely on the Michigan Medicaid program for basic health care needs, allow me to join in a chorus of support for SB 348 which will ensure health care programs for the poor children in our state.

Currently, half of all births in Michigan are covered by Medicaid, demonstrating its vital importance to children and families. Since 2003, health plans that hold a Medicaid managed care contract have paid a 6-percent use tax, providing almost \$400 million needed to access over \$800 million in federal dollars for a total of \$1.2 billion. Federal authorities have indicated that new rules will almost certainly not allow using the so-called "HMO use tax" to match federal dollars by next year.

We support the Governor's proposal to replace that 6-percent use tax on some health plans with a 1-percent use tax on all health plans. Not only is the Governor's plan more fair, but it also is acceptable to federal authorities and will allow Michigan to continue to draw down federal dollars to support the health care needs of our poorest citizens, including hundreds of thousands of children.

The one-percent tax solution also was assumed in the FY 2012 budget for the Michigan Department of Community Health that already has been approved. Without it, Michigan could face a \$1.2 billion shortfall in Medicaid next year resulting in many providers withdrawing from participation in the Medicaid program, and jeopardizing the health of a million Michigan children.

Thank you for your support for basic health care services for our most vulnerable children.

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August 9, 2011

Dear Members, Michigan House of Representatives:

PHI (formerly Paraprofessional Healthcare Institute) wishes to express our support of SB 348, the broader assessment on paid claims by a variety of carriers, replacing the current assessment on HMOs. PHI is a non-profit organization that promotes quality long-term supports and services (LTSS) and quality jobs for the 161,000 direct-care workers employed by LTSS organizations – many of whom are Medicaid providers.

The enactment of the health claims assessment in SB 348 will protect federal funding for the Medicaid program and allow the state to fully implement the FY 2011-2012 budget for the Michigan Department of Community Health (DCH) that was signed by Governor Snyder on June 21, 2011.

Despite challenging economic times, the Legislature and the Governor should be proud that the 2011-2012 DCH budget did not include cuts in services, eligibility levels, or provider rates for the Medicaid program. These protections to the Medicaid program will help continue health care coverage for the most vulnerable in our state. In addition, maintaining rates to providers will not only maintain access to health care services, it will also protect jobs for many in this state, including direct-care workers.

Cuts to provider rates for nursing homes that receive funding through Medicaid, home care and adult foster care homes that are a part of the Medicaid MIChoice program, would likely result in the elimination of jobs for direct-care workers who provide up to 80% of the hands-on care and support to seniors and people with disabilities and represent one-fourth of the jobs in the health care industry. Michigan cannot afford to increase the rates of uninsured in this state - nor can it stand to push people into unemployment.

We urge your support of SB 348 to secure the 2011-2012 DCH budget and protect future federal funding for the Michigan Medicaid program. If you have any questions or concerns, please contact Tameshia Bridges (517) 643-1049 or [tbridges@phinational.org](mailto:tbridges@phinational.org).

Sincerely,

Tameshia Bridges  
Michigan Senior Workforce Advocate



PHI National Office:  
349 East 149th Street, 10th Floor ■ Bronx, NY 10451  
Tel: 718.402.7766 ■ Fax: 718.585.6952



**Henry Ford Health System Statement for the Record**

**on**

**1% Health Insurance Claims Tax**

**For**

**House Appropriations Committee**

**The Honorable Chuck Moss, Chairman**

**August 10, 2011**

Henry Ford Health System appreciates the opportunity to comment on legislation designed to replace approximately \$400 million in Medicaid HMO use tax revenues with a 1% assessment on health insurance claims. **We fully endorse the legislation and urge adoption.**

**We would ask that the Committee consider adding language that allows part of the Health Insurance Claims Tax Fund to be used to support Graduate Medical Education.**

Senate Bill 348 contains a provision that allows some of the Health Insurance Claims Tax Fund to be used to support GME. This language does not increase the tax or raise the cap -- it simply allows the Legislature to allocate part of the Fund to GME in future years. Forty-one states, including Michigan, provide some level of funding for GME through the Medicaid program.

This support recognizes the linkage between GME and the Medicaid Program, as well as overall benefits of for the economy and privately insured patients.

**In urging support for the 1% Claims Tax, it is not without some hesitation -- this is because the 1% Claims Tax will cost our Henry Ford Health Alliance Plan \$17 million per year, with no exemptions and offsets.** That said, Henry Ford is committed to working for adoption of the health claims assessment, and we respectfully offer our help and support.

**The Medicaid program is critical to the communities Henry Ford serves in Southeast Michigan (Macomb, Wayne, Oakland Counties).** We are grateful for the commitment the Legislature and Governor Rick Snyder have made in the budget to maintain funding for Medicaid during these difficult economic times when nearly 20 percent of Michigan citizens rely on Medicaid for their health care needs. The number of Michigan citizens without health insurance of any kind recently increased to 1.35 million. Taken together, these numbers mean that more than three million people (or 30% of the total population) in Michigan are either enrolled in Medicaid or are uninsured.

**Without the 1% Health Insurance Claims Tax legislation, support for health care services to Medicaid patients will drop by 20%.** We estimate this means a loss of \$438 million for Wayne County, \$90 million for Oakland County, and \$83 million for Macomb County, based on current Medicaid enrollments. While the amount of Medicaid revenues at risk is about \$1.2 billion in 2012, the loss for SE Michigan is about \$611 million, or nearly half the state-wide amount.



One other state, New York, has instituted a tax-supported Medicaid Fund -- this is a thoughtful strategy to address current funding needs and to substitute a questioned Medicaid HMO assessment with a fair and equitable revenue source for Medicaid going into the future. It is also smart business. The Health Insurance Claims Tax generates an estimated \$400 million per year, which makes Michigan eligible for an additional \$800 million in federal Medicaid matching funds and produces a total of \$1.2 billion for the Medicaid Program. This is a good tax because:

- It replaces "dollar for dollar" an assessment that the federal government is disallowing.
- It provides a dedicated and reliable source to attract federal Medicaid matching funds for demonstrated health care needs in a difficult economy.
- The tax is broad-based, not narrow or targeted to just a handful of taxpayers (everyone pays and everyone pays the same)
- It recognizes that employers receive relief in other parts of the Governor's Tax package.

**Dollars spent on medical education provide multiple benefits. A dollar investment in GME recycles many times in the economy for multiple benefits:**

- 1. Workforce - GME revenues assure physician workforce and supply of physicians**
  - Workforce adequacy affects all patients, not just Medicaid patients
  - It is futile to pay for medical education programs at universities, if there are no hospital-based residencies for graduates -- graduates go to other states eager to build their own "academic enterprise" and very few come back to Michigan
  - Physicians tend to stay where they do their residencies

**2. Care for Medicaid and Uninsured - Medical Residencies extend physician resources so that care is affordable for Medicaid and charity care.**

- Michigan's major Teaching hospitals (U of M, HFHS, DMC, Ascension) are located in communities where the need for Medicaid and uncompensated care is high.
- In last 10 years, Michigan has lost 1 million jobs, experienced 15% unemployment with new pressures for Medicaid and uncompensated care.

**3. "Loss Leader" Clinical Programs - Trauma, burn center, transplantation programs are part of the benefits that GME revenue helps finance.**

- These programs benefit all patients
- These are the clinical services in jeopardy when GME revenues disappear
- All patients in the community suffer when these clinical programs disappear

**4. Primary Care - GME helps hospitals that sponsor only one residency program.**

- These single residency hospitals are the pipeline for primary care
- Single residency hospitals are the most likely to drop their teaching program in the absence of GME payments.
- Loss of single residency programs leaves even larger primary care shortages at the time the state needs them most
- Primary care is a proven healthcare cost-saver.

**5. Jobs - More than \$51 billion in economic benefit & 546,000 jobs are in MI healthcare**

- GME is integral to the economic model for healthcare -- which consists of advanced clinical care, research and technology.
- GME funding supports the economic model for healthcare and jobs

**6. Growth for the New Economy - GME Faculty are advanced-degree professionals most likely to be engaged in research and innovation.**

- Henry Ford attracts more than \$60 million per year in research grants that would otherwise not come to Michigan
- Developing and attracting the advanced degree workforce is part of Governor Snyder's vision for Michigan's future
- Teaching programs are part of the "academic enterprise" that attracts these professionals
- Other states actively compete for the advanced-degree workforce
- Research and technology at Academic Health Centers spin off products and innovation

In closing, Henry Ford Health System urges your support for the 1% Health Insurance Claims Tax legislation. We encourage you to adopt provisions from Senate Bill 348 that allow some of the Claims Tax Fund to be used for graduate medical education costs of hospitals and

health systems that serve Medicaid patients as approved by the Legislature through appropriation.

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Henry Ford owns and operates 6 hospitals and 27 medical centers throughout Southeast Michigan, and Health Alliance Plan, one of Michigan's largest HMOs. Our medical staff consists of 1,100 salaried physicians and researchers, as well as 2,100 private practice physicians. Henry Ford has one of the nation's largest medical workforce training programs, with more than 650 residents and the nation's largest osteopathic physician training program.

Henry Ford serves approximately 1 million patients in the region, including Medicaid, Medicare, Blue Cross and uninsured patients. In 2010, Henry Ford reported total revenues of \$4.08 billion (including Health Alliance Plan). In recent years, Henry Ford reported \$60.1 million net income for 2010 (a 1.5% margin) compared to \$30.4 million in 2009 (less than 1%) and approximately \$8 million in 2008. Despite the continued economic challenges in Michigan Henry Ford has been able to continue to grow. Our annual Medicaid revenues are about \$160 Million per year, with about 40% in fee-for-service and the remaining in Medicaid HMO contracts. In 2010, \$78.5 million in uncompensated care for the system was attributable to Medicaid underpayments, \$52 million to charity care and \$69 million to bad debt.

Contact: Darlene Burgess  
VP Corporate Government Affairs  
Henry Ford Health System  
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Dburges1@hfhs.org

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# MICHIGAN STATE MEDICAL SOCIETY

120 WEST SAGINAW STREET, EAST LANSING, MICHIGAN 48823, PHONE 517/337-1351  
FAX 517/337-2490

August 10, 2011

TO: House Appropriations, Representative Chuck Moss Chair  
FROM: Steven E. Newman, MD, President  
RE: Support of Senate Bill 348

On behalf of the more than 16,000 physicians of the Michigan State Medical Society (MSMS), I am writing in support of Senate Bill 348. Senate Bill 348 seeks to update the law to allow Michigan to continue to leverage significant amounts of federal funding for the Medicaid program.

Senate Bill 348 generates approximately \$450 million in revenue that can be matched by the federal government. The state portion plus the federal match provides \$1.2 billion in funding for the Medicaid program. This funding is critical to continue providing vital medical services under the Medicaid program. Failure to enact this legislation would create a funding shortfall that would be devastating to the health care industry in Michigan. More importantly, if Senate Bill 348 is not enacted, moms, children, senior citizens, and other patients who rely on Medicaid will suffer due to diminished access to necessary medical services.

Senate Bill 348 is a crucial funding component of the overall budget agreement, and more importantly a crucial element in maintaining vital health care services in Michigan. I would urge you to support Senate Bill 348.





# Michigan Association of **COMMUNITY MENTAL HEALTH** Boards

## **MEMORANDUM**

**To:** Representative Chuck Moss, House Appropriations Committee Chairman  
Members of the House Appropriations Committee

**From:** Michael Vizena, Executive Director, MI Assn. of Community Mental Health Boards  
Alan Bolter, Associate Director, MI Assn. of Community Mental Health Boards

**Date:** August 10, 2011

**Re:** Senate Bill 348

The Michigan Association of Community Mental Health Boards (MACMHB) is a trade association, representing the 46 CMH boards and 60 of the providers who are under contract with those boards to provide mental health and substance use disorder services in all 83 counties in Michigan. MACMHB supports SB 348, the 1% Claims Assessment as an alternative to the current 6% HMO/PIHP Use Tax.

The one-percent health insurance claims assessment was assumed in the FY12 budget that was adopted by the legislature in late May. Failure to adopt the necessary enabling legislation (SB 347 & 348) would have a devastating impact on the state's Medicaid program. Michigan would face a \$1.2 billion shortfall in the FY12 Medicaid program, which would certainly result in significant provider reductions, increased uncompensated care and a shift to more costly care settings.

### **IMPORTANT FACTS REGARDING SB 348**

- ❖ The 1% claims assessment would generate no more than the same amount of revenue raised by the current HMO/PIHP tax—or \$400 Million;
- ❖ The Health Insurance Claims Assessment Act would be broad based and inclusive of all payers and as low a rate as possible—in all instances no higher than 1%;
- ❖ The Health Insurance Claims Assessment Act will pass federal muster;
- ❖ The failure to act harms Michigan's most vulnerable citizens while losing millions of federal dollars.

On behalf of the 250,000 persons receiving service from Michigan's community-based mental health and substance use disorder system thank you for your consideration of SB 347 & 348.